

CITY OF YOUNGSTOWN

Finance Review

February – March 2018

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April 2018



Preview of Presentation

- Observations
 - General Observations
 - Budget Process
 - Financial Observations
- Historical Financial Results (General, Emergency 911, Federal Plaza, Street Construction, Police, Fire, Parks & Recreation, \$5 Auto License Fee, 1/4 Capital Improvement Tax, Debt Service and Covelli Center). Does not include Water, Wastewater and Sanitation Funds.
 - Revenue
 - Expenditures
 - ✓ Fringe Benefits

Preview of Presentation – continued

- 5 Year Forecast
 - Assumptions
 - Revenue Forecast
 - Expenditure Forecast
 - Projected Structural Deficit
- Budget Deficit Reduction Recommendations
- Budget Items Evaluated and No Potential Impact
- FY 19 Proposed Budget Timeline

Observations – General

- Current financial difficulties primarily due to low revenues that result from City's current demographics
- Voted property taxes are not levied for operating purposes
- Despite financial challenges, City should be commended for balancing budgets in prior fiscal years
- Ohio law requires the City to certify an appropriate level of revenues that provides the basis for the budget
- Significant reliance on income tax-approximately 70%. One taxpayer comprises 10% of income taxes collected
- A current structural deficit exists that must be addressed
- Immediate and difficult decisions are needed to address the structural deficit before the deficit gets too large. This is necessary to avoid fiscal watch, caution or emergency

Observations – Budget Process

- Budgeting process is organized and appropriate. The budget is detailed and supportable and does not include budgeted surpluses
- Appropriate number of funds are maintained whose purpose is identified. Balances in funds seem appropriate and supportable
- Financial system well designed to facilitate budget process
- Suggest establishing and communicating a budget timeline that starts earlier and ends earlier

Observations - Financial

- A deficit existed in prior years that the City was able to resolve through one-time revenues, use of existing reserves, refinancing of debt or deferral of expenses
- The FY 18 budget required reductions exceeding \$1.3 million to balance
- Recent wage increases have been minimal
- 89% of the budget is allocated to salaries and wages and non-discretionary expenses
- Fringe benefits percentage exceeds 60%, targeted level around 40%
- Health insurance review committee has been successful in minimizing the increase in health care costs
- City does not benefit from attrition savings as turnover rate is minimal
- Cash and investments reconciled monthly-key to relying on financial reports

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Historical Financial Results - Revenue

(Amounts in 000's)	2016	2017	2018
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>
Property Taxes	\$ 1,876	\$ 1,875	\$ 1,866
Special Assessments	\$ 232	\$ 229	\$ 230
City Income Tax	\$ 42,351	\$ 43,084	\$ 44,000
Local Government Fund	\$ 1,507	\$ 1,452	\$ 1,480
Casino Tax	\$ 1,373	\$ 1,343	\$ 1,315
Other Intergovernmental	\$ 4,355	\$ 4,488	\$ 5,382
Licenses and Permits	\$ 778	\$ 864	\$ 832
Salary and Expense Reim.	\$ 3,837	\$ 4,022	\$ 3,533
Other Charges for Services	\$ 826	\$ 699	\$ 622
Fines and Forfeitures	\$ 485	\$ 500	\$ 492
Transfers	\$ 1,235	\$ 238	\$ 334
Miscellaneous	\$ 3,302	\$ 3,396	\$ 3,160
Total	<u>\$ 62,157</u>	<u>\$ 62,190</u>	<u>\$ 63,246</u>

Historical Financial Results - Expenditures

(Amounts in 000's)	2016	2017	2018
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>
Salaries and Wages	\$ 28,538	\$ 28,688	\$ 28,651
Fringe Benefits	\$ 17,549	\$ 16,996	\$ 18,018
Utilities	\$ 2,748	\$ 2,733	\$ 2,497
Insurance	\$ 318	\$ 307	\$ 301
Professional Services	\$ 1,257	\$ 1,300	\$ 1,665
Operating Services	\$ 2,184	\$ 1,842	\$ 1,935
Operating Supplies	\$ 1,910	\$ 1,689	\$ 1,766
Fuel/Gasoline	\$ 456	\$ 545	\$ 611
Other Operating Ex.	\$ 900	\$ 844	\$ 566
Capital Outlay	\$ 3,260	\$ 2,594	\$ 3,945
Transfers Out	\$ -	\$ -	\$ -
Other Expenses	\$ 1,124	\$ 1,436	\$ 940
Debt Service	\$ 2,061	\$ 2,130	\$ 3,198
Total	<u>\$ 62,305</u>	<u>\$ 61,104</u>	<u>\$ 64,093</u>

Expenditures – Fringe Benefits

(Amounts in 000's)	2017
	<u>Actual</u>
Uniform Allowance	\$ 325
Education Bonus	\$ 151
Hospitalization Waiver	\$ 69
Non use of sick leave bonus	\$ 184
Hazardous duty pay	\$ 227
Sick leave buyback*	\$ 170
Exposure Allowance	\$ 32
Longevity	\$ 430
Vacation buyback*	\$ 96
Fitness Incentive	\$ 18
Personal Expenditure Allowance	\$ 2

*Retirement/Severance

Expenditures – Fringe Benefits continued

City Pick up Pension	\$ 1,067
Employer share of pension	\$ 5,406
Medical Insurance Premiums	\$ 7,602
Employee Life Insurance	\$ 85
AFSCME Health and Welfare Insurance	\$ 45
Unemployment Compensation Insurance	\$ 5
Workers Compensation Insurance	\$ 653
Medicare Employer Share	\$ 419
AD&D Insurance	\$ 10
Total Benefits	<u>\$ 16,996</u>
Fringe Benefits Percentage	59%

5 Year Forecast – Revenue Assumptions

- Property taxes and special assessment-flat
- City Income taxes - 1% increase
- Local Government fund-flat
- Casino tax - 2.1% decrease
- Other intergovernmental revenue in FY 2018 includes a one-time increase of \$1.1 million from the state for roadway projects

5 Year Forecast – Revenue Assumptions - continued

- COPS grants continue until 2023 for Police and 2021/2022 for Fire
- Covelli Center revenue will increase with opening of Ampitheater in spring 2019
- Fines and forfeitures - Assumes no increase in revenue from Courts for debt service
- Licenses and permits, salary and expense reimbursement, other charges for services and transfers-flat
- Primarily the same level of CDA reimbursement
- Miscellaneous - minor changes

5 Year Forecast – Revenue

(Amounts in 000's)

	2019	2020	2021	2022	2023
	<u>Projection</u>	<u>Projection</u>	<u>Projection</u>	<u>Projection</u>	<u>Projection</u>
Property Taxes	\$ 1,866	\$ 1,866	\$ 1,866	\$ 1,866	\$ 1,866
Special Assessments	\$ 230	\$ 230	\$ 230	\$ 230	\$ 230
City Income Tax	\$ 44,440	\$ 44,885	\$ 45,333	\$ 45,786	\$ 46,244
Local Government Fund	\$ 1,480	\$ 1,480	\$ 1,480	\$ 1,480	\$ 1,480
Casino Tax	\$ 1,287	\$ 1,260	\$ 1,234	\$ 1,208	\$ 1,183
Other Intergovernmental	\$ 4,239	\$ 4,284	\$ 4,231	\$ 4,177	\$ 4,132
Licenses and Permits	\$ 832	\$ 832	\$ 832	\$ 832	\$ 832
Salary and Expense Reim.	\$ 3,533	\$ 3,533	\$ 3,533	\$ 3,533	\$ 3,533
Other Charges for Services	\$ 622	\$ 622	\$ 622	\$ 622	\$ 622
Fines and Forfeitures	\$ 492	\$ 492	\$ 492	\$ 492	\$ 492
Transfers	\$ 334	\$ 334	\$ 334	\$ 334	\$ 334
Miscellaneous	\$ 3,070	\$ 3,154	\$ 3,234	\$ 3,234	\$ 3,234
Total	<u>\$ 62,425</u>	<u>\$ 62,972</u>	<u>\$ 63,421</u>	<u>\$ 63,794</u>	<u>\$ 64,182</u>

5 Year Forecast – Expenditure Assumptions

- No program expansion or no additional hiring from FY 18 budget
- Wage increases - 1.0% in FY 19, 1.5% in FY 20, 0% increase in FY 21-23
- Fringe Benefits-Healthcare 5.5% annual increase. Pension, Medicare, and workers comp increase equal to wage increase. Remaining fringe benefits flat
- Utilities-1/2% increase through 2021. FY 2022 2.5% increase
- Insurance-2% increase
- Fuel/Gasoline- 5% increase

5 Year Forecast – Expenditure Assumptions - continued

- Professional Services, Operating Services, Operating Supplies, Other Operating Services and Other Expenses-1% increase
- Capital Outlay-0% increase
- Transfers Out-Operating shortage at 20 Federal
- Covelli Debt Service- \$200,000 increase per year for note repayment. Interest rate of 2.25%-2.5%
- Transfer of \$350,000 to Opta Traffic fund in FY 18-one time

5 Year Forecast - Expenditures

(Amounts in 000's)

	2019	2020	2021	2022	2023
	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>
Salaries and Wages	\$ 28,938	\$ 29,372	\$ 29,372	\$ 29,372	\$ 29,372
Fringe Benefits	\$ 18,636	\$ 19,223	\$ 19,714	\$ 20,232	\$ 20,778
Utilities	\$ 2,509	\$ 2,522	\$ 2,534	\$ 2,597	\$ 2,610
Insurance	\$ 307	\$ 313	\$ 319	\$ 326	\$ 332
Professional Services	\$ 1,681	\$ 1,698	\$ 1,715	\$ 1,733	\$ 1,750
Operating Services	\$ 2,094	\$ 2,115	\$ 2,136	\$ 2,157	\$ 2,179
Operating Supplies	\$ 2,034	\$ 2,054	\$ 2,075	\$ 2,096	\$ 2,117
Fuel/Gasoline	\$ 642	\$ 674	\$ 708	\$ 743	\$ 780
Other Operating Ex.	\$ 572	\$ 577	\$ 583	\$ 589	\$ 595
Capital Outlay	\$ 2,730	\$ 2,730	\$ 2,730	\$ 2,730	\$ 2,730
Transfers Out	\$ 580	\$ 560	\$ 540	\$ 520	\$ 500
Other Expenses	\$ 829	\$ 878	\$ 887	\$ 895	\$ 904
Debt Service	\$ 3,093	\$ 3,258	\$ 3,421	\$ 3,604	\$ 3,267
Total	<u>\$ 64,645</u>	<u>\$ 65,974</u>	<u>\$ 66,734</u>	<u>\$ 67,594</u>	<u>\$ 67,914</u>

Projected Structural Deficit Without Additional Capital Funding

(Amounts in 000's)	2019 Forecast	2020 Forecast	2021 Forecast	2022 Forecast	2023 Forecast
Beginning Balance	\$ -	\$ (2,220)	\$ (5,222)	\$ (8,535)	\$ (12,335)
Total Revenue	\$ 62,425	\$ 62,972	\$ 63,421	\$ 63,794	\$ 64,182
Total Expenses	\$ <u>64,645</u>	\$ <u>65,974</u>	\$ <u>66,734</u>	\$ <u>67,594</u>	\$ <u>67,914</u>
Ending Balance	\$ <u>(2,220)</u>	\$ <u>(5,222)</u>	\$ <u>(8,535)</u>	\$ <u>(12,335)</u>	\$ <u>(16,067)</u>

PROJECTED STRUCTURAL DEFICIT
\$2.5 - \$3.2 MILLION

Projected Structural Deficit With Additional Capital Funding

(Amounts in 000's)	2019	2020	2021	2022	2023
	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>
Beginning Balance	\$ -	\$ (2,720)	\$ (6,222)	\$ (10,035)	\$ (14,335)
Total Revenue	\$ 62,425	\$ 62,972	\$ 63,421	\$ 63,794	\$ 64,182
Total Expenses	\$ 64,645	\$ 65,974	\$ 66,734	\$ 67,594	\$ 67,914
Additional Capital Funding	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 500</u>	<u>\$ 500</u>
Ending Balance	<u>\$ (2,720)</u>	<u>\$ (6,222)</u>	<u>\$ (10,035)</u>	<u>\$ (14,335)</u>	<u>\$ (18,567)</u>

PROJECTED STRUCTURAL DEFICIT
\$3.0 - \$3.7 MILLION

Summary of Major Impacts

- Revenues generally flat
- Wage increases in FY 19 and 20 - (approximately \$700,000 annually)
- 5.5% annual increase in health care (\$441,000 annually)
- Loss of AT&T lease revenue - (\$500,000 annually)
- One time transfer to Opta Traffic fund (\$350,000 annually)
- Additional debt service-Courts building and Covelli Center (>\$1 million per year)

Amounts identified above-approximately \$3 million per year

Budget Deficit Reduction Recommendations

REVENUE

1. Income tax amnesty program-one time revenue can be earmarked for capital
2. Implement additional fee for bulk refuse collection. Increases Sanitation Fund revenue
3. Evaluate types and dollar amounts of licenses and permits issued by the City. Evaluate fees that are currently being waived
4. Work with YSU to create a sponsorship/naming rights program for the City
5. Aggressively pursue a new leasing partner for the facility previously leased by AT&T. Annual revenue of \$500,000

Budget Deficit Reduction Recommendations

EXPENDITURES

1. Implement mandatory furlough days for City employees. Subject to negotiation
2. Reduce pension pick up for existing employees with a corresponding reduction in salary for employees that do not receive pension pickup. Subject to negotiation
3. **Eliminate pension pick up for newly hired employees. Subject to negotiation**
4. Forego salary increases negotiated for FY 19 and FY 20. Subject to negotiation. Savings approximately \$700,000 annually
5. **Revisit percentage of health care premiums paid by City Employees. Subject to negotiation. Employees currently pay 10% of premiums. Savings of approximately \$900,000 annually if percent increased to 20%**

Budget Deficit Reduction Recommendations

EXPENDITURES - continued

6. Revisit deductibles, out of pocket expenses and other components of healthcare programs. Need to work through HIRC Committee. Overall fringe benefits percentage exceeds 60%.
7. **Reduce discretionary overtime. Ensure exempt salary employees are not receiving overtime**
8. Allocate portion of pension bond debt service to enterprise funds. Frees up some monies in debt service fund that could absorb other debt service costs being paid in general fund

Budget Deficit Reduction Recommendations

EXPENDITURES – continued

9. Work with City's financial advisor to evaluate the timing and opportunity to issue bonds for the currently outstanding notes. Evaluate possibility of extending maturity
10. **Evaluate if health services (or other City services) could be provided by Mahoning County.**
11. Sell/repurpose Golf Course
12. Request Law Department to review external insurance policies for possible premium reductions. Could City assume additional risk?
13. Evaluate possible alternatives for external consulting services being provided by engineering department

Budget Deficit Reduction Recommendations

EXPENDITURES – continued

14. **Contracting for lease of snow plow for 2019**
15. **Implement direct deposit for all City employees**
16. Ensure payment discounts are taken on all applicable payment transactions. Financial impact would be minor as City is currently taking most discounts
17. Consider eliminating one fire truck. Manpower would be shifted that would allow for a reduction-in-force and overtime pay throughout Fire Department
18. **Strategically reduce staffing. Opportunities may exist in Fire Department and Court Operations. PFM recommended reducing staffing in Fire Department by 20 FTE's and reductions in the Clerk and Court Area of a maximum of 30 FTE's**

Budget Items Evaluated and No Potential Impact

REVENUES

- Billing for vacant lot services appears to follow best practices
- Billing for demolition services appears to follow best practices
- External collection agency used to collect on outstanding balances
- Charging for ambulance transports-City does not provide services, thus does not charge for ambulance transports
- MVSD surplus-any monies would need to be returned to Water enterprise fund
- Water fund surplus-any surplus is required to remain within enterprise fund
- City is currently assessing for certain street lighting

Budget Items Evaluated and No Potential Impact

EXPENDITURES

- City recently refinanced some outstanding debt. No additional refinancing opportunities currently exist
- Enterprise Funds are paying applicable Debt Service-other than possibility of portion of pension bonds
- Purchase of electricity, natural gas and other utilities appear to follow best practices. External consultant involved
- City purchases copy machines and extends life past 5 years
- City currently competitively bids salt purchases
- City currently has a minimal fleet. Use of City owned automobiles appears limited to appropriate departments
- Minimal capital monies are being expended from General Fund or other operating funds
- City currently uses a Health Insurance Review Committee (HIRC) to help manage health care costs

FY 19 Proposed Budget Timeline

1. April-Present 5 year forecast to City Council and other applicable groups
2. May through June-Discussions with union leadership regarding concessions should occur. Any decisions should be made by the end of June. Focus should be on fringe benefits and concessions should be long term. Specific focus on components of healthcare, % of premium contributions by employees-currently 10% and wage and pension concessions
3. July-August-If concession discussions are unsuccessful, discussions regarding layoffs should occur. Each area of the City should be evaluated for possible staffing reductions with specific focus on fire and court operations
4. By August 30th-Decisions regarding layoffs should occur

FY 19 Proposed Budget Timeline - continued

5. By October 15th-Departments provide their FY 19 budgets to Finance
6. By November 15th-Finance should compile the budgets and commence budget balancing-if necessary
7. December and January-Finance closes financial records
8. In January 2019-Finance shares budget balancing process with Mayor and other key administration leadership for input and approval
9. February 2019-budget discussions commence with City Council

Questions or Comments

